



OFFICE OF THE  
CITY AUDITOR

*AUDIT OF CITY DEPARTMENT  
REVENUE AND CASH HANDLING PROCEDURES*

A REPORT TO THE  
SAN JOSE  
CITY COUNCIL

April 1986

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## *EXECUTIVE SUMMARY*

For fiscal year 1984-85, the City Auditor reviewed departmental petty cash and change funds to determine whether they were: 1) intact, 2) used for their intended purposes, and 3) properly maintained and safeguarded. Audit staff also reviewed a sample of departmental revenue deposits to determine whether they were deposited promptly and intact.

We reviewed approximately one-third of the assigned funds (40% of the total dollar value of the funds) and found that the funds were substantially intact (See Appendix I, Summary of Funds Counted). We found, however, that some of the fund custodians were not certain how to handle overages or shortages in their cash funds. These uncertainties were the result of inadequate City guidelines and established procedures.

In addition, our review of revenue deposits by City Departments showed that of ten departments selected for testing, five departments did not promptly deposit their revenue with the Finance Department. The late deposits included 253 checks totaling \$39,908.85 that were deposited from two to twenty-seven days late. The largest late check was \$21,773 which was deposited ten days late. The longest delay noted was a \$58.00 check which was 27 days late (See Appendix II).

On December 12, 1984, we issued an interim report to the City Manager notifying him of our findings. The City Manager requested the Finance Director to initiate corrective action, and this resulted in a Finance Department review of the concerned departments' revenue sources and deposit procedures. As a result of this, the Finance Department anticipates developing and issuing a new revenue deposit procedure for all City departments by April or May, 1986.

It is recommended that:

Recommendation #1:

The Finance Department amend Section 252E of the City Administrative Manual (or reissue the same as part of the Finance Department Procedures Manual) to include policies and procedures for:

- a) Requiring department certification of the validity and receipt of petty cash purchased items,
  - b) Maintaining the physical security of cash funds by prescribing adequate procedures and equipment for safekeeping and limiting access to cash funds.
- (Priority 3)

Recommendation #2:

The Finance Department revise the Petty Cash Reimbursement Voucher (Form 100-33) to provide for department head or authorized deputy signature in order to certify the validity and receipt of petty cash purchased items. (Priority 3)

## INTRODUCTION

In accordance with City Charter Section 805(a), the Office of the City Auditor has conducted its annual audit of City department revenue and cash handling procedures.

## AUDIT SCOPE

For fiscal year 1984-85, the City Auditor audited departmental petty cash and change funds, and reviewed City department deposits of revenue for timeliness.

Audit staff reviewed departmental petty cash and change funds to determine whether they were: 1) intact, 2) used for their intended purposes, and 3) properly maintained and safeguarded. Staff also reviewed a sample of departmental revenue deposits to determine whether they were deposited promptly and intact.

PETTY CASH AND CHANGE FUNDS WERE  
SUBSTANTIALLY INTACT. HOWEVER,  
WRITTEN PROCEDURES FOR THESE FUNDS WERE  
NEITHER COMPLETE NOR CURRENT

During the fiscal year ended June 30, 1985, City departments maintained cash funds and disbursed from those funds the following amounts:

	<u>Petty Cash Funds</u>	<u>Change Funds</u>
Total Funds Assigned to Departments	\$ <u>17,845</u>	<u>\$5,825</u>
Total Amount Expended by Departments	<u>\$128,291</u>	<u>n/a</u>

We reviewed approximately one third of the assigned funds (40% of the total dollar value of the funds) and found that the funds were substantially intact (See Appendix I, Summary of Funds Counted). We found, however, that some of the fund custodians were not certain how to handle overages or shortages in their cash funds. These uncertainties were the result of inadequate City guidelines and established procedures.

Section 252E of the City Administrative Manual (CAM) contains the guidelines for maintaining a petty cash or change fund. A review of the procedures disclosed that at the time of our audit the CAM guidelines were neither complete nor current.<sup>1</sup> For example:

1. The CAM does not prescribe the procedure for handling overages and shortages in the departmental cash funds. Although the CAM requires that overages and shortages be reported when the fund is replenished or transferred, fund custodians have no authoritative and specific guidelines to follow in addressing questions that may arise, such as the following:

- a) Should a petty cash overage or shortage be reported on a revenue voucher, the Petty Cash Reimbursement Voucher, or on either form?
- b) When and how should a change fund overage or shortage be reported?

[1] Subsequent to our audit, the Finance Department issued revised procedures which correct some of the deficiencies noted in our review. (see page 7).



- c) What account (either a revenue account or an Over and Short account) should be credited or charged for a change fund overage or shortage?
- d) What additional reporting procedures are required when a significant shortage or loss in either petty cash or change fund occurs?

The absence of definitive instructions on the handling of cash fund overages and shortages has caused inconsistent, and at times inappropriate, reporting of the overages and shortages.

- 2. The CAM does not require prior written authorization of the department head or an authorized deputy before expenses may be incurred and monies paid out of the petty cash fund. Under the current CAM procedure, the authority to approve disbursement and the physical control of the cash both appear to be vested in the fund custodian. The following excerpt from

custodian making payment from the petty cash fund. The absence of a pre-authorization step in the procedure creates a control weakness that could result in spurious payments from petty cash funds.

3. The CAM does not require the department head or an authorized deputy to certify the validity of a petty cash disbursement or to attest to the receipt of a petty cash purchased item. The Petty Cash Reimbursement Voucher (Form 100-33) requires the "Purchasing Agent" in the General Services Department, rather than the department head or deputy, to certify the propriety of departmental petty cash purchases.
4. The CAM does not provide guidelines for the proper physical safekeeping of petty cash and change funds. We noted, for example, that one department lost one of its change funds because the departmental procedure for overnight safekeeping of the fund was not adequate. In another department, we found that four employees had access to the departmental petty cash fund. This situation not only increases custodial risk, but dilutes responsibility for the fund in case of loss or shortage as well.

The petty cash and change fund procedures in the CAM had not been revised since December 1, 1978 and were clearly outdated. In addition to the control weaknesses noted above, the CAM did not accurately reflect the fact that the Purchasing Division is now a unit of the General Services Department and not the Finance Department, or that mileage expenses may no longer be reimbursed from the petty cash fund.

During our audit, the Finance Department was preparing a revision to the City-wide cash handling manual. In February 1986, the draft was issued to City departments for comments.

The draft contains specific guidelines which address weaknesses we found in the cash handling system during our audit. Specifically, the new guidelines will 1) provide definitive instructions on the handling of overages and shortages in the cash funds and 2) require prior written authorization of a department head or authorized deputy before expenses are incurred or monies paid out of the petty cash funds.

The draft did not contain provisions addressing the areas of certification of expense validity or proper physical safekeeping of petty cash and change funds. We have discussed these points with the Director of Finance and additions will be made to the new procedures.

## CONCLUSION

Our review of the departmental petty cash and change funds showed that the funds, except for minor overages or shortages, were intact on the cash count dates and were used for their intended purposes. We found, however, that weaknesses existed in the procedures for maintaining the funds. These weaknesses included the lack of:

- a) Consistency in the handling of fund overages and shortages,
- b) Supervisory review and pre-authorization of petty cash payments,
- c) Proper department head or deputy certification as to the validity of petty cash disbursements and attesting to the receipt of petty cash purchased items, and
- d) Written guidelines for the physical security of cash funds, including prescribed procedures and equipment to be used for overnight safekeeping and limiting access to cash funds.

RECOMMENDATIONS

It is recommended that:

Recommendation #1:

The Finance Department amend Section 252E of the City Administrative Manual (or reissue the same as part of the Finance Department Procedures Manual) to include policies and procedures for:

- a) Requiring department certification of the validity and receipt of petty cash purchased items,
- b) Maintaining the physical security of cash funds by prescribing adequate procedures and equipment for safekeeping and limiting access to cash funds.

(Priority 3)

Recommendation #2:

The Finance Department revise the Petty Cash Reimbursement Voucher (Form 100-33) to provide for department head or authorized deputy signature in order to certify the validity and receipt of petty cash purchased items. (Priority 3)

REVENUE DEPOSITS NOT TIMELY

Our review of revenue deposits by City Departments showed that of ten departments selected for testing, five departments did not promptly deposit their revenue with the Finance Department. The late deposits included 253 checks totaling \$39,908.85 that were deposited from two to twenty-seven days late. The largest late check was \$21,773 which was deposited ten days late. The longest delay noted was a \$58.00 check which was 27 days late (See Appendix II).

The City has a policy, established by the Finance Director on October 11, 1983, requiring that:

"...Each department on a daily basis turn in all cash received on revenue vouchers to the Treasury Division of the Finance Department unless there is specific authorization to do otherwise. There may be instances where small amounts of cash received may be accumulated until there is \$25 dollar accumulation available for turning in. However, this practice does need to be approved in advance. All other cash received should be turned in in a proper and timely fashion in order to maximize the City's best use of funds received. (Emphasis added)

*...In addition, all departments receiving checks in excess of \$50,000 should hand carry them immediately to the Treasury Division for special deposit."*

On December 12, 1984, we issued an interim report to the City Manager notifying him of our findings. The City Manager requested the Finance Director to initiate corrective action, and this resulted in a Finance Department review of the concerned departments' revenue sources and deposit procedures. As a result of this, the Finance Department anticipates developing and issuing a new revenue deposit procedure for all City departments by April or May, 1986.

#### CONCLUSION

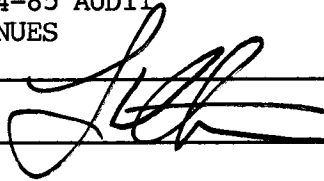
Our review of ten City Departments revealed that five departments were not in compliance with City policies regarding the timeliness of revenue deposits. The Office of the City Auditor notified the City Manager of its findings, on December 12, 1984. The City Manager subsequently initiated steps to develop a new revenue deposit procedure for City departments. These procedures should be issued sometime in April or May, 1986.

CITY OF SAN JOSE - MEMORANDUM

TO: Honorable Mayor and City Council  
SUBJECT: RESPONSES TO 1984-85 AUDIT  
OF CASH AND REVENUES

FROM: Edward G. Schilling  
Director of Finance  
DATE: April 10, 1986

APPROVED



DATE

BACKGROUND

On December 12, 1984, the City Auditor issued an Interim Report on the Audit of Revenue Deposits. That report indicated that certain departments were accumulating revenues before receipting and were not promptly depositing revenues. Prior to that, on November 5, 1984, the City Manager had set up a task force in the Office of Management and Budget to review existing cash handling processes and procedures and to recommend changes where necessary to improve systems then in place. On January 10, 1985, the Finance Director, in response to three or four incidents where City operations experienced problems with cash shortages, set up interim procedures, to serve until OMB was able to develop their final recommendations.

The project of developing Citywide guidelines was passed on to the Finance Department, and on February 12, 1986, a draft of comprehensive cash-handling procedures was given to revenue-generating departments for review and comment. Since they represent the first concerted effort to address the lack of cash-handling procedures, the guidelines and procedures are extensive, detailed, and specific. Several departments have responded with comments, many of which are being incorporated into the final product, which is anticipated to be distributed as part of the Finance Administrative Manual before the end of the fiscal year. Subsequent to the issuance of the draft procedures in February, the final Cash and Revenue Audit, first presented as an interim report in 1984, was reviewed by Finance with the Auditor. At that time, several additions to the draft procedures were recommended by the auditors, and these have been reflected in the guidelines and in Finance's responses to the audit recommendations.

RECOMMENDATION 1: The Finance Department amend Section 252E of the City Administrative Manual (or reissue the same as part of the Finance Department Procedures Manual) to include policies and procedures for:

- A. Requiring department certification of the validity and receipt of petty cash purchased items.
- B. Maintaining the physical security of cash funds by prescribing adequate procedures and equipment for safekeeping and limiting access to cash funds.

Response

The guidelines and procedures for petty cash and change funds will be issued to all departments by the end of June, 1986 as part of the Finance Administrative Manual. Sections 4 and 5 of those procedures address department certification of the validity and receipt of petty cash purchased items; and also deal with procedures and equipment for safekeeping and limiting access to cash funds.



RECOMMENDATION 2: The Finance Department revise the Petty Cash Reimbursement Voucher (Form 100-33) to provide for department head or authorized deputy signature in order to certify the validity and receipt of petty cash purchased items.

Response

The Petty Cash Reimbursement Voucher has been revised to provide for the department head or authorized deputy's signature, certifying the validity and receipt of petty cash funds. In addition, the Materials and Services Manager is required to certify that the purchases made from petty cash were legitimate.

Revenue Deposits Not Timely

In the Auditors review of ten City departments selected for testing, five departments did not promptly deposit their revenue to Treasury. In four of these cases, the delay was due to procedures set up to enhance operational effectiveness rather than to negligence. For example, Public Works often accepts payments pending verification of amounts due (e.g. grading permits, sewer lateral permits, plan checking, etc.), since it is not practical for the staff involved to review the submitted plans immediately; and checks are held until the review is complete, usually no more than five days. Similarly, the Police Department is open 24 hours a day, seven days a week, but the fiscal staff (and Treasury) works Monday through Friday. The Fire Department occasionally receives payments in advance for annual permits, inspections of fire systems, etc., and may hold them until contractor's information is received or the billing process is completed.

In order to both address these concerns and to emphasize the importance of daily cash deposits, the guideline procedures state (Section 4.0.4.3.1):

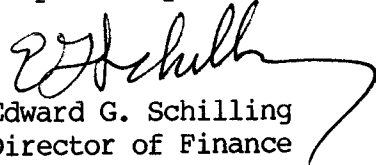
"Collection of revenue by departments must be paid on the day received or for receipts received late in the day, the first working day after collection. All variances to this procedure must be approved by the Director of Finance." (Emphasis Added)

Section 4.2.3.11C.1 further states:

"If a person brings in or mails in a check for a permit, fee, etc., for which the amount due needs to be determined at a later time, the following actions should be taken: a department must obtain written approval from the Director of Finance to not deposit certain checks on the day of receipt due to operational limitations."

Finance believes that mandating approved written variances from general guidelines will serve to emphasize the importance of timely deposits of revenues.

Respectfully submitted,

  
Edward G. Schilling  
Director of Finance

ES:EH:jm  
6295F/0312F

**RECEIVED**  
APR 10 1986  
CITY AUDITOR

1985 CASH AUDIT  
SUMMARY OF FUNDS COUNTED

Department/Office	Number of Funds Reviewed	Funds Reviewed					
		Petty Cash Fund			Change Fund		
		Amount	Over	Short	Amount	Over	Short
Airport	2	\$ 750	-	-	\$ 225	-	-
City Clerk	2	150	-	-	25	-	-
City Council	1	400	-	-			
Finance - Treasury	4	100	-	-	500	-	-
					100	-	-
					50	-	-
Fire - Administration	1	1,000	-	-			
General Svcs.- Auctions	1				300	-	\$ .25
- Materials Control	1	600	\$ .10	-			
- Purchasing	1	300	-	-			
Library	1	1,000	-	-			
Manager - Administration	1	400	-	-			
- Manager	1	75	3.25	-			
Mayor	1	150	5.32	-			
Neighborhood Pres. - Adm.	1	250	-	-			
- Housing	1	150	-	-			
Neighborhood Maintenance	1	600	-	-			
Parks and Rec. - Cypress Ctr.	2	50	-	-	\$ 50	-	-
- Lake Cunningham	2	50	1.31	-	250	-	2.18
- Olinder Center	2	50	-	-	50	-	-
- Prusch Park	2	50	-	-	50	-	-
- St. James	2	50	-	-	50	-	-
Personnel	1	500	-	-			
Police	3				300	-	-
					160	-	-
					50	-	-
Public Works - Administration	1	700	-	-			
Muni Water - Alviso	1				50	.02	-
Muni Water - Tuers Road	1				100	1.20	-
TOTAL	37	<u>\$7,375</u>	<u>\$9.98</u>	<u>0</u>	<u>\$2,310</u>	<u>\$1.22</u>	<u>\$2.43</u>
Total Funds Assigned	114	\$17,845			\$5,825		
Percent Reviewed	32%	41%			40%		

1985 CASH AUDIT  
SCHEDULE OF LATE DEPOSITS

APPENDIX II

<u>Department</u>	<u>Date of Receipt or Permit</u>	<u>Number of Checks Delayed</u>	<u>Days Delayed (Range)</u>	<u>Amounts (Range)</u>	<u>Total Value of Delayed Checks</u>
Neighborhood	10/9 - 10/10/84	27	3-12	\$38 - 2,728	\$8,692.88
Preservation	11/30 - 12/03/84	3	4-5	23 - 416	606.22
Traffic Operations	10/3 - 10/09/84	4	5-27	15 - 53	141.25
	12/05/84	2	8-22	3.50 each	7.00
Public Works	10/11/84	6	2-10	294 - 21,773	25,565.00
Fire	10/11/84	9	2-9	6 - 266	648.00
	11/29 - 12/03/84	14	3-13	50 - 590	2,490.50
Police - Warrants	10/11/84	4	4	150 - 400	1,019.00
Photostats	10/10 - 10/11/84	110	2-24	4 - 5	441.00
	12/03/84	74	1-9	3.50- 6	<u>298.50</u>
TOTAL					<u>\$39,908.85</u>